



Supply Chain Resilience Bulletin

Supply Chain Task Force – DG GROW

01 June 2022

DG GROW Supply Chains Task Force

What it is

- Set up the day after the Russian military aggression against Ukraine
- Gathers GROW expertise on specific industrial ecosystems and horizontal issues linked to the war
- Provides regular updates with the most relevant news and impact analysis

Objectives

- Monitoring the impact of the war on supply chains, including the loss of inputs and the loss of market for European industries
- Steering the action to help European businesses, as well as Ukrainian economic actors and displaced population

Main sources of information

- European industry associations
- European cluster networks
- Enterprise Europe Network
- Member States' authorities
- EU Delegations in Ukraine and Russia
- Association of European businesses in Russia
- Ukrainian authorities
- Exchanges with other EU institutions

Supply Chains: Impact on Industrial Ecosystems

CONSTRUCTION

- Lack of plywood and steel
- Price spikes lead to project postponements
- Shortage of workforce from Ukraine
- Loss of market for furniture industry

MACHINERY

- New and continued supply shortages (e.g., steel, chips) and skyrocketing prices
- National barriers to diversify supply chains
- Loss of significant EU export market for agricultural machinery
- Long-term export bans and sanctions dual-use goods

AGRI-FOOD

- Loss of market for products like wine and chocolate
- Lack of sunflower oil, lecithin and other inputs
- Fertilisers price increase
- Animal feed deficit

TOURISM

- Loss of EU trade surplus with Russia
- Higher prices for transport
- Tourism in countries with many refugees perceived as unethical
- Despite a drop immediately after the aggression, now improving



ENERGY-INTENSIVE INDUSTRIES

- Lack of metallurgic raw materials
- Steel prices are reaching record levels.
- Lack of inputs for the chemicals industry
- Loss of export market of Specialties Chemicals

HORIZONTAL IMPACT ON ALL ECOSYSTEMS

LOGISTICS

- Closure of Ukrainian ports
- Closure of airspace
- Shortage of truck drivers
- Shortage of diesel additive AdBlue
- Uncertainty on customs clearance
- Insurance companies unwilling to provide insurance
- Uncertainty of payments and risk of legal issues for shipping companies

ELECTRONICS

- Lack of noble gases input
- Production of semiconductors affected
- Alternative sourcing is limited
- Russia prohibited export of electrical equipment

MOBILITY

- Loss of market for vehicles
- Lack of carbon black and synthetic rubber for tyres
- Disruptions of vehicle production
- Lack of software as production was largely outsourced to Ukraine



Nature of the disruption

ELECTRONICS

- EU imports 30-50% of its noble gases from UA & RU, used for the production of semiconductors, lasers and other electronic and medical equipment.
- Russia temporarily prohibited export of electrical equipment, monitors, projectors, consoles

TOURISM

- Loss of EU trade surplus with Russia (1st international source market in 2021)
- North America markets resist, but return of other long-haul travellers will be delayed because of EU perception as unsafe and/or higher prices for transport
- EU airports continue their recovery now, despite a drop after the Russian aggression

MACHINERY

- Orders agreed in the past years after long negotiations cannot be delivered anymore, even if the goods are uniquely designed according to customer specification → losses for companies
- Russia prohibited export of metal and stone processing machines and turbines

AGRI-FOOD SECTOR

- Russia was the 6th destination of EU agri-food exports.
- Animal feed deficit: EU relied on UA for grains and oilseeds for animal feed
- RU/BY accounted for approx. 30% of EU fertiliser inputs.
- Lack of sunflower oil and lecithin inputs.
- Logistical problems in Ukraine continue to disrupt grains exports

MOBILITY

- Prior to the war RU was 9th most important export destination for EU vehicles
- Tyres: carbon black and synthetic rubber from RU and UA.
- Aluminium: 17% of EU demand supplied by RU
- UA supplied about 50 percent of the world's neon gas



Supply Chain Impact

HIGH IMPACT

- Limited possibility for alternative sourcing. Only approx. 20 facilities worldwide produce these gases (neon, xenon, krypton in particular).
- Important price hikes expected

MEDIUM IMPACT

- Impact on Member States, depending on the share of Russians in tourism flows
- Limited possibility to adapt energy consumption when demand is falling / hedging historically low (cut back during COVID).
- Recent positive trend expected to flatten because of inflation and the effect of the sanctions on Russia (income and fuel costs)

MEDIUM IMPACT

- DE and IT are the two countries that have the largest EU market share in Russia for the machinery sector (respectively 11% and 6% in 2020). Certain EU machines tool companies rely heavily on exports to RU like some producers in CZ and AT.
- Concerns about the Directive proposal on due diligence: companies need to find new suppliers quickly and there is no time to screen their production methods.

MEDIUM IMPACT

- The EU is a net wheat and barley exporter. But Russia and Ukraine supply 29 percent of all global wheat exports..
- EU food processors experience significant cascading cost increases (fertilisers, commodities, energy, logistics, packaging). Natural gas prices remain a major issue.
- Currently no risk for food security in the EU, but high food inflation (almost 7%) may impact vulnerable populations

HIGH IMPACT

- Disruption to vehicle production and to the flow of kits, components, and vehicle import, delays in supplies of parts from Ukraine
- Difficulties are still being reported in the import of wire harnesses, but suppliers are starting to reopen production in Ukraine, although at reduced capacity.
- Aluminium delivery shortages and price hikes.



Nature of the disruption

STEEL

- Inputs supply disruption risks including iron ore (fines and pellets) and hot-briquetted iron, coal, ferro-alloys, rolls and technical equipment.
- The EU gets overall 21% of its iron and steel (unwrought) imports from RU.
- EU has a strong dependency for semi-finished products (50% coming from RU) and a relevant dependency for finished products (especially flat products, 20% from RU)

CHEMICALS INDUSTRY

- Loss on export to RU of Specialties Chemicals (€3.7 bn);
- Loss of inputs, including natural gas: non-energy feedstock, particularly for Ammonia, but also Methanol & Hydrogen production. Difficult to replace
- Main chemicals imported from RU: methanol, saturated acyclic hydrocarbons, ammonia and other fertilisers' components:

WOOD BASED INDUSTRIES

- Imports represent around 10% and of that 62% comes from RU-BY-UA. 25% of EU plywood demand is supplied by RU/BY. 15-20 % of parquet oak is supplied by UA/RU.
- Glues: lack of supply of adhesives and resins for wood industry cause shortage of particle boards and price hikes.

CONSTRUCTION ECOSYSTEM

- Shortage of wooden construction products (plywood and sawn timber, trusses, carpentry, joints; wooden/parquet floors), and steel (infrastructural steel, rebar,...)
- Indirect effects of higher energy prices are almost immediate through higher prices for products (of steel, concrete, insulation materials,...) and transport of goods to construction sites

TEXTILES ECOSYSTEM

- Ecosystem affected by the rise in energy prices and concerned by further price hikes.
- Russia is the 5th main customer for European textiles and clothing companies (annual exports around €3 billion).
- Big EU retailers have closed their shops in Russia



Supply Chain Impact

MEDIUM IMPACT

- Short-term steel output reduction likely, price increases. Inputs can be sourced elsewhere, requiring adjustment of supply chains.
- Steel products imported from RU can be replaced by EU production and / or by imports from other third countries.
- Key MS affected: DE, FR, CZ, PL, SE, IT, ES, FI, BE and DK

HIGH IMPACT

- Curtailments and halts (many temporary) in EU-based companies due to high gas prices and energy prices. Currently, production costs are 3x higher than usual
- Key MSs affected: primarily DE & FR; but also IT, NL, ES, BE, HU
- Changes in trade observed between RU and third countries not applying sanctions

MEDIUM IMPACT

- Further price hikes in particular for plywood and oak will affect construction, furniture and parquet industries.
- Key MSs affected: FI, EE, PL, LT, and RO

MEDIUM IMPACT

- Postponement and cancellation of construction projects due to price uncertainty and recalculations falling outside of budget
- Difficulties for public procurement as construction companies are unable to commit to fixed price agreements in the current volatility
- SMEs are harder affected due to less bargaining power and less reserves

MEDIUM IMPACT

- Higher energy prices impacting profit margins
- Loss of export market
- Closure of retail outlets – turnover loss

Key takeaways from questionnaire sent to Member States

Main disruptions:

- **Lack of imports** from RU and UA for metals or metal products, agricultural goods, fertilisers, wood, rubber, etc. => *Industry efforts to diversify, change product composition*
- **Loss of export markets** – much more country specific => *Industry efforts to find new markets*

National measures:

- Focus of Member States' efforts on **short-term horizontal support to businesses**
- Specific actions to accompany businesses efforts to **reduce pre-existing dependencies on RU**
- **Ecosystem-specific measures** (e.g. to accelerate the development of renewable energy, labelling and stockpiling in agri-food); Cybersecurity, recognition of professional qualifications for UA citizens

Suggestions on action needed:

- More investment in **raw materials, Chips Act** implementation, well-functioning **Single Market, scale economies**
- Call for further **aid to businesses** facing increased costs
- Suggestions for **more EU action at ecosystem level**. However for some MSs no more needed for now

Questionnaire sent to COMPCRO Council Working Party on 29/3 with replies by 19/4

Main disruption areas reported in clusters survey (over 450 replies from EU companies)

Number of companies that reported disruptions from each industrial ecosystem

Aerospace and Defence	19
Agri-food	73
Construction	69
Cultural and Creative Industries	13
Defense	1
Digital	33
Electronics	33
Energy - Renewables	37
Energy Intensive Industries	25
Health	48
Mobility - Transport - Automotive	45
Proximity Social Economy and Civi..	12
Retail	25
Textile	12
Tourism	6

Number of reports on disruptions for each supply value chains stage

Administrative, finance infrastructure	54
Human resource management	91
Inbound logistics	300
Marketing & Sales	77
Operations	176
Outbound logistics	169
Procurement	177
Research and development	54
Services	48

Updated results from the survey for European companies and stakeholders: Disruptions in supply chains
(Submitted by the European Clusters Collaboration Platform on 8 March 2022)